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SUBJECT: INCREASED BANK DEPOSITS: BLESSING OR CURSE? (ECONOMIC WEEK  
IN REVIEW, SEPTEMBER 28 - OCTOBER 4, 2009)

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INCREASED BANK DEPOSITS:  
BLESSING OR CURSE?  
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¶1. (U) As Lebanon reports a \$14 billion increase in bank deposits in the first eight months of 2009, prominent local economists have publicly characterized increased deposits as a double-edged sword for local banks. Head of Research at Byblos Bank Nassib Ghobril noted that since depositors continue to convert dollar deposits to Lebanese pounds to benefit from higher pound interest rates, bank profits will likely take a hit in 2009. As banks are already highly exposed to sovereign risk through their government debt holdings, finding new investment tools (mainly in the Gulf) to cover deposit costs may be more difficult in the light of the effects of the global crisis in that region, Ghobril said.

¶2. (SBU) Meanwhile, general manager of Al Mawarid Bank Marwan Kheireddine told us September 29 that the Lebanese banking sector is very conservative in its lending policies. The bulk of loans are extended to major businesses and corporations, as opposed to SMEs, startups, and the industrial and agricultural sectors. Kheireddine noted that the slow judicial process in settling client default cases discourages banks from expanding their lending base.

FIRST RIGHT TO KNOW DAY  
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¶3. (U) On September 29, International Right to Know Day was celebrated for the first time in Lebanon, under the auspices of the National Network for the Right of Access to Information. The network, established in April 2008, includes Lebanese Parliamentarians against Corruption (LebPAC), the Lebanese Transparency Association (LTA), ministries, and NGOs, in collaboration with the American Bar Association's Rule of Law Initiative in Lebanon. The network helped draft the access to information draft law introduced to parliament in April 2009 and is currently working on a draft law for whistleblower protection.

¶4. (U) During the press conference, Minister of State for Administrative Reform Ibrahim Shamseddine expressed disappointment

at the small number of MPs in attendance. Minister of Interior Ziad Baroud noted the lack of a cabinet since the June parliamentary elections is not an excuse to stop working on increasing transparency through greater citizen access to information as a means of fighting corruption. According to Transparency International's 2008 Corruption Perception Index, Lebanon ranked 102 out of 180 countries, down from 99 in 2007, and 11 out of 20 MENA countries, in terms of perception of corruption.

AGRO EXPORTS EXCEED 200,000 TONS  
IN FIRST HALF OF 2009  
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15. (U) The Investment Development Authority of Lebanon (IDAL) announced it would pay 30% of dues and obligations to farmers exporting their agricultural products under the Export Plus program for 2008. IDAL has paid farmers a total of 60% of dues to date. IDAL noted agricultural exports for the first half of 2009 reached 203,000 tons, 41% of which were oranges, followed by bananas (15%) and apples (14%). 31% of the exports under the Export Plus program went to Syria, while Saudi Arabia received 17% and the UAE 8%. Launched in 2001, Export Plus seeks to increase exports by subsidizing the transport of certain agricultural goods and overseeing quality and compliance with international standards. Subsidies have been decreased gradually since 2006 and are expected to be completely phased out by 2011.

LEBANON IMPROVES IN INDUSTRIAL  
COMPETITIVENESS INDEX  
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16. (U) Lebanon ranked 61 out of 122 countries worldwide in the latest UN Industrial Development Organization's (UNIDO) Competitive Industrial Performance Index, up from 71 in the 2004 index. Within the MENA region, Lebanon ranked 6 out of 14, up from 7 in the previous survey. The index measures the ability of countries to

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produce and export manufactured goods competitively.

17. (U) Meanwhile, the vice president of the Association of Lebanese Industrialists (ALI) publicly noted the GOL was not doing enough to support Lebanese industries, which are struggling with competition from neighboring countries that subsidize the main factors of production, such as energy and land. Lebanon's largest ceramic tilemaker, Uniceramic, unable to compete with imported products whose manufacturing costs were 73% less, declared bankruptcy last week following years of gradually scaling down production and reducing staff, according to press reports.

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